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Access for Infants and Mothers (AIM) Program – Audit of Kaiser Foundation Health Plan for the 2005/2006 and 2006/2007 Contract Periods

Final

Prepared for the

Managed Risk Medical Insurance Board

MERCER

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Executive Summary – Findings

The Managed Risk Medical Insurance Board (MRMIB) requested that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, conduct an audit of Kaiser Foundation Health Plan (Kaiser), a current AIM Health Plan. The on-site audit was conducted at Kaiser's Pasadena, California offices June 3, 2009 through June 4, 2009. The test work covered the 2005/2006 and 2006/2007 contract periods. Key findings from this audit are as follows:

- Two of the 184 sample mothers had no evidence of services. Mercer considers these exceptions. Mercer did verify that Kaiser received payment for each of these exceptions. Through extrapolation, the corresponding total estimate of inaccurate payments in the universe is $152,572.14. This amount should be collected from Kaiser.
- In review of the Monthly Financial Reports (i.e., AIM invoices) Mercer found two instances of underpayment to Kaiser (100 percent of the payment was missing) and one instance of an overpayment (a 75 percent overpayment due to a transfer-in). The net amount of these issues came to an underpayment to Kaiser of $11,395.38.

A summary of all financial related findings is as follows:

Description of Error	Contract Years 05/06 and 06/07
Sample Error Extrapolation	$152,572.14
Monthly Financial Reports Net Under Payment	($11,395.38)
Total due MRMIB	$141,176.76

- In 2008, MRMIB performed a reconciliation of Kaiser's AIM payments for the time period from July 2004 through October 2006. The net effect of that reconciliation was a settlement of $284,286.07 owed from Kaiser to MRMIB. The cause of the errors included everything from members enrolled with Kaiser for whom they were not paid, to over claiming for "Transfers-In" and no repayments for members transferring out of

Kaiser. All of the issues identified in that reconciliation have already been accounted for and payment has been adjusted accordingly by MRMIB. Therefore, no further adjustments will be made for those issues as a result of this AIM audit. Based on the very small number of issues identified subsequent to that AIM audit, it is apparent that Kaiser has improved their Monthly Financial Reporting process.

- Kaiser recognizes AIM revenue essentially on a cash basis, where all revenue is recognized when it is received. On the other hand, expenditures are recognized as service utilization data is received. For the time period under review, the health plan's revenue recognition and expenditure recognition approaches did not appear to be fully aligned with each other. Going forward however, the new combination of per member per month (PMPM) and lump sum delivery payment should result in the revenue recognition being more in line with expense recognition.
- In their 2008/2009 Rate Development Template (RDT) submission, Kaiser only included costs for AIM members who had given birth, whereas the RDT instructions did not ask for this limitation. This was also done in the 2009/2010 RDT and somewhat understated total AIM costs. In addition, the vast majority, if not all, of the costs reported under the "Child" section of the RDT, were for sick newborns with separate admissions. These costs were the responsibility of Kaiser's Healthy Families Program line of business and should not have been included. This inclusion, which also occurred in the 2009/2010 RDT, overstates both total costs and costs on a per-delivery basis. While in total the RDT costs were overstated, the AIM rates were frozen for most of the 2008/2009 contract year, and only nominal increases to the rates occurred after that. Therefore, the overstatement in the RDT did not have a material impact on AIM rates paid by MRMIB for the 2008/2009 contract year.

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Introduction

MRMIB requested that Mercer conduct a limited scope audit of Kaiser, a current AIM Health Plan, for the 2005/2006 and 2006/2007 contract periods.

On March 17, 2009, Kaiser was advised of the upcoming audit by MRMIB. On March 25, 2009, Mercer sent a letter to Kaiser outlining the scope of the audit and the preliminary data request. Mercer representatives were on site at Kaiser's Pasadena, California offices from June 3, 2009 through June 4, 2009. Kaiser representatives were well prepared and responsive during the audit. Cathy Lurty, Senior Account Manager for California Medi-Cal and State Programs facilitated the audit on behalf of Kaiser.

The remainder of this document summarizes the audit objectives, approach and findings.

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Audit Objectives

The specific objectives were as follows:

- Through sample test work on 2005/2006 and 2006/2007 AIM mothers, confirm that AIM mothers received services related to their enrollment period
- Confirm that Kaiser has appropriately accounted for transfers-in/out and retroactive disenrollments, in the Monthly Financial Reports submitted to MRMIB for the 2005/2006 and 2006/2007contract periods
- Determine Kaiser's loss ratio and net profit (loss) for the 2005/2006 through 2006/2007 contract periods, and calculate any overpayments and underpayments arising from the audit for the 2005/2006 and 2006/2007 contract periods
- Determine the source of information Kaiser uses to complete their RDT
- Determine how newborns of AIM mothers are accounted for in financial reporting and in the RDT
- Determine the basis on which Kaiser reimburses their providers
- Verify the database Kaiser uses to maintain the listing of mothers enrolled, per Maximus

Mercer developed audit procedures to support the objectives of the audit. Where audit procedures involved sampling, Mercer employed statistically sound sampling techniques. Through negotiation with Kaiser and MRMIB, it was agreed that a sample size of 184 would be generated for the test work. The sampling unit is defined as a pregnant mother, newly enrolled with Kaiser during July 1, 2005 through June 30, 2007.

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Audit Approach and Findings for Each Objective

Mercer's approach and findings for each audit objective follow.

AIM Mothers Receipt of Service Test Work

Approach:

Mercer employed a three-phase approach, based on statistically sound sampling techniques. The first phase creates a definition of the universe. The universe was identified to be mothers enrolled with Kaiser and a corresponding payment made during contract year 2005/2006 or 2006/2007. These mothers were summarized in a file sent to Mercer from Deborah Simmons of MRMIB.

The second phase entailed generating a statistically valid sample of mothers from the universe. Each woman's enrollment in the sample represents one sampling unit. A sample size of 184 was chosen based upon negotiation with Kaiser and MRMIB.

The third phase consisted of a claims (record of service) review and comparison to the Monthly Financial Reports prepared by Kaiser and submitted to MRMIB. Mercer requested at least one record of service for each of the 184 members. If no record of service was available, this was considered an exception. If a member was terminated back to the date of enrollment, this was also considered an exception, even if services were provided, since the member was not eligible. In the sample test work, no case of retroactive termination was noted where services had been provided by Kaiser. Capitation was also not considered evidence of a service. For each exception, Mercer verified that the mother was included in a Monthly Financial Report, validating that MRMIB paid for that mother. If the mother was terminated, transferred in or out, and appropriately recognized on the Monthly Financial Report, this was not considered an error, even if no services were provided.

For each record of service, the mother's name was first verified with our sample set. If the name was not an exact match, the patient's AIM identification number and birth date were used for verification. Mercer also traced several members' records of service to the actual on-line medical record system, HealthConnect, noting that all records of service were supported with the full complement of information contained within the medical record system.

Findings:

Of the 184 mothers in our sample, Mercer noted the following:

- Two of the 184 sample mothers had no evidence of services. Mercer considers these exceptions. Mercer did verify that Kaiser received payment for each of these exceptions.
- In review of the Monthly Financial Reports (i.e., AIM invoices) Mercer found two instances of underpayment to Kaiser (100 percent of the payment was missing) and one instance of an overpayment (a 75 percent overpayment due to a transfer-in). The net amount of these issues came to an underpayment to Kaiser of $11,395.38. See further discussion of this issue in the subsequent section of this report.

Sample error extrapolation

The audit revealed an error rate of 1.048 percent in the sample. Kaiser was paid $17,373.39 for the members, for whom no services were provided. The total amount paid to Kaiser for the entire sample group (184 members) was $1,657,341.54. So, the error rate is $17,373.39 divided by $1,657,341.54. Kaiser was paid $14,558,411.82 for the entire universe of newly enrolled members for the period from July 1, 2005 through June 30, 2007. Using the sample error rate of 1.048 percent, the corresponding estimate of inaccurate payments in the universe is $152,572.14. This amount should be collected from Kaiser.

A summary of all financial related-findings is as follows:

Description of Error	Contract Years 05/06 and 06/07
Sample Error Extrapolation	$152,572.14
Monthly Financial Reports Net Under Payment	($11,395.38)
Total due MRMIB	**$141,176.76**

Monthly Financial Reports for 2005/2006 and 2006/2007

Approach:

Mercer requested copies of all financial reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods. New mothers, transfers-in/out and retro cancellations were compared to a report received directly from MRMIB. Mercer performed a recalculation of the amounts reported. We also discussed the Monthly Financial Report completion process with Kim Ryan, Assistant Director of Statutory Finance.

Findings:

The Monthly Financial Reports captured enrolled members, transfers-in, and transfers-out. Some of the issues identified are discussed below.

- In 2008, MRMIB performed a reconciliation of Kaiser's AIM payments for the time period from July 2004 through October 2006. The net effect of that reconciliation was a settlement of $284,286.07 owed from Kaiser to MRMIB. The cause of the errors included everything from members enrolled with Kaiser for whom they were not paid, to over claiming for "Transfers-In" and no repayments for members transferring out of Kaiser.
- From July 1, 2004 through October 31, 2006, there were 28 members that should have been claimed as "Transfers-In" and paid at only 75 percent. However, all of these members were originally claimed by Kaiser as brand new members at the full rate.
- From July 1, 2004 through October 31, 2006, there were 15 members who should have been included on the Monthly Financial Reports as "Transfers-Out" with Kaiser repaying 75 percent, but were not.
- From July 1, 2004 through October 31, 2006, there were 23 members who should have been included on the Monthly Financial Reports as "New Mothers" who were reported on Maximus, but not found on Kaiser's invoices. These should have been paid to Kaiser at the full rate, but were missed.
- From July 1, 2004 through October 31, 2006, there were 37 members who were included on the Monthly Financial Reports as "New Mothers" who were not considered eligible as reported by Maximus, or did not have any services provided. Full payment for these members should have been returned by Kaiser to MRMIB.

All of the issues identified in the bullets above have already been accounted for and payment adjusted accordingly by MRMIB. Therefore, no further adjustments will be made for these issues as a result of this AIM audit. Based on the very small number of issues identified subsequent to that AIM audit, it is apparent that Kaiser has improved their Monthly Financial Reporting process.

After a thorough review of the individual Monthly Financial reports for both of Kaiser's North & South regions, along with subsequent discussions with both members of Kaiser's staff and MRMIB's staff, only three items remain as outstanding issues from Mercer's review. These are shown below.

- For Kaiser South, January 2006 MFR, one member identified as a transfer-out was mistakenly included on the MFR at a positive 75 percent rate amount, when this person should have been shown at a negative 75 percent rate. However, this person was not paid for in any previous MFR. Therefore, the net result of the error as agreed by Kaiser staff, is that Kaiser would owe MRMIB back the 75 percent rate amount or $6,892.40.

- For Kaiser South, April 2006 MFR, one member was mistakenly left off the report and, therefore, no payment was received from MRMIB. In this case MRMIB would owe Kaiser the full rate amount or $9,189.86.

- In May of 2007 Kaiser made an adjustment to correct what it thought was an overpayment by MRMIB. However, it turns out that payment had not been made on that member. Therefore, MRMIB owes Kaiser back the $9,097.92.

The net effect of the above three adjustments would suggest a payment is owed from MRMIB to Kaiser in the amount of $11,395.38. This amount has been included in the summary of financial issues in the previous section of this report.

Loss Ratio and Net Profit (Loss)

Approach:

Mercer requested that Kaiser prepare income statements for the 2005/2006 and 2006/2007 contract periods, using the California Department of Managed Health Care Annual Reporting forms. Mercer reviewed these income statements with Susan Peltz, Kaiser's Director of Statutory Finance.

Findings:

Reported financial information is as follows:

	2005/2006	2006/2007
Total Revenues	$7,796,039	$8,185,710
Medical Expenses	$8,579,733	$9,681,269
Administration	$144,309	$92,349
Net Income (Loss)	($928,004)	($1,587,908)
Profit (Loss) Ratio	-11.90%	-19.40%
Administration/Capitation Revenue	1.85%	1.13%
Medical Cost Ratio	110.05%	118.27%

Kaiser recognizes AIM revenue essentially on a cash basis, where all revenue is recognized when it is received. On the other hand, expenditures are recognized as service utilization data is received. For the time period under review, the health plan's revenue recognition and expenditure recognition approaches did not appear to be fully aligned with each other. Going forward however, the new combination of per member per month (PMPM) and lump sum delivery payment should result in the revenue recognition being more in line with expense recognition.

Mercer noted some reasonably large differences between the revenues and expenditures reported on the income statements versus those reported as base data in the 2008/2009 RDT submission. These differences were caused by a variety of issues.

First, the AIM income statements appropriately included revenues and expenses for the AIM covered children for the time period under review, whereas the AIM RDT did not contain these costs, nor did it request them. In addition, the AIM RDT included only one year of revenue. Finally, there were some costs, namely the sick newborn costs, inappropriately included in the AIM RDT, which were the responsibility of the Healthy Families Program. Those costs were not reported in the income statements. See additional discussion of information contained in the RDT in the following section.

Kaiser has obtained waivers from the Department of Managed Health Care (DMHC) and the Office of Statewide Planning and Development (OSHPD) that allow them to report on a reduced number of expense/costs categories due to their unique integrated delivery system model. Therefore, the income statements prepared for the AIM line of business did not contain all of the same categories of service as the AIM RDT contained.

Kaiser utilizes a PMPM allocation methodology to recognize administrative expenditures for all lines of business. Then, administrative costs related to their provider operations are removed so that a more accurate Health Plan administrative expense remains. Generally speaking, they do not differentiate administration by Health Plan membership/line of business. This may explain why Kaiser is consistently reporting less than 2.0 percent administrative costs for the AIM program, which is far lower than a typical health plan administrative expense load for a government program.

Information Kaiser Uses to Complete the Rate Development Template

Approach:

Mercer reviewed Kaiser’s contract year 2008/2009 RDT (base data from 2005/2006 through 2006/2007). In addition, we interviewed Lorenz Glaza, Staff Actuary, who was able to walk us through the support provided as well as the overall process utilized by Kaiser to complete RDTs.

Findings:

Schedule Two of the RDT (Revenue, Expense and Utilization Statement) was prepared by using Kaiser’s historical AIM encounter and related data. The base period used was from July 1, 2005 through June 30, 2007. Kaiser did not apply any completion factor to their data, as they felt it was adequately complete.

Mercer also noted the following:

- Kaiser only included costs for AIM members who had given birth, whereas the RDT instructions did not ask for this limitation. This was also done in the 2009/2010 RDT and somewhat understated total AIM costs.
- Kaiser appears to have only included one year’s revenue in the RDT as opposed to the total revenue related to the two-year base period.

- The vast majority, if not all, of the costs reported under the "Child" section, were for sick newborns with separate admissions. These costs were the responsibility of the Healthy Families Program and should not have been included. This inclusion, which also occurred in the 2009/2010 RDT, overstates both total costs and costs on a per-delivery basis.
- While in total the RDT costs were overstated, the AIM rates were frozen for most of the 2008/2009 contract year, and only nominal increases to the rates occurred after that. Therefore, the overstatement in the RDT did not have a material impact on AIM rates paid by MRMIB for the 2008/2009 contract year.

Schedule Three of the RDT (Trend Assumptions) includes annual trends to be applied to the historical data. Cost trends were based upon analysis of historical encounter and cost data for the commercial membership of the health plan. Those trends were then reduced somewhat for application to the AIM program. Kaiser used a single unit cost trend rate of 8.5 percent across all categories of service. These resulting trend figures submitted in the RDT were somewhat higher than expected.

Schedule Four (Projected Health Care Costs and Proposed Rates) is largely calculated cells, and/or a summary of claims distribution that was developed from historical data. Schedule Four also includes Administration and Profit/Risk/Contingency load factors. We noted the following regarding Schedule Four:

- As a result of the inclusion of the sick newborn (HFP) costs as discussed above, the projected rates included in Kaiser's RDT were significantly overstated.
- The Administrative load percentage calculated in the RDT was 0.8 percent.
- The Profit/Risk/Contingency included in the RDT was 0.0 percent.

The Profit/Risk/Contingency and administrative loads included in the RDT were both lower than expected.

Schedule Five (Historical Claims Distribution) asks for historical cost experience to be reported by various levels of expenditures. Kaiser completed this schedule by reporting individual encounters/claims in each expense level. The instructions call for encounter/claim experience to be rolled-up (summed) first by claimant/member, then report each claimant in the appropriate expense level category.

Upon discussion of the various RDT reporting issues with Lorenz Glaza, Staff Actuary, he indicated that Kaiser would be able to correct the issues for future RDT submissions.

Accounting for Expenditures Related to Newborns of AIM Mothers

Approach:

Per the Kaiser contract the "State shall pay for infants born to subscribers who enroll in the program on or after July 1, 2004, through the Contractor's contract with the State for Healthy Families Program" (Exhibit B, I. B. 4). During our sample test work, Mercer looked for evidence of newborn claims and how they were handled. Mercer also discussed Kaiser's process for handling newborn claims with Kaiser's Director of Statutory Finance, Susan Peltz.

Findings:

Kaiser staff appeared to be aware of the change of how newborns are accounted for, effective July 1, 2004. For most deliveries the newborn claims are combined with the Mother's costs on the claims/encounters. In cases where the newborn stays in the hospital longer than the mother, they are billed/accounted for separately and, therefore, can be easily identified as an HFP member. It appears Kaiser is appropriately accounting for the costs of the AIM versus the Healthy Families Program in their financial reporting.

Basis on Which Kaiser Reimburses Their Providers

Approach:

Mercer requested Kaiser to provide narrative write-ups documenting their approach to developing, paying and reconciling payments, including capitation payments to providers. While on site, Mercer reviewed these narratives with Peter Moren, Senior Counsel and Susan Peltz, Director of Statutory Finance.

Findings:

Kaiser Foundation Health Plan, Inc., together with Kaiser Foundation Hospitals and their subsidiaries, and the Permanente Medical Groups comprise an integrated health care delivery system. This includes direct provision of comprehensive care for professional and technical components of inpatient and outpatient care in the hospital and medical office settings, skilled nursing, home health and hospice care, mental health, pharmaceuticals, and optical services.

The methodology used to develop the costs associated with a particular service or set of services, is primarily through Kaiser's cost accounting system for direct medical costs. These costs are based on the specific encounters and services provided. Additionally, indirect costs are generally allocated across all lines of business on a PMPM basis. According to Kaiser, this methodology approximates traditional claims-based provider expenses.

When contracting for professional services, Kaiser does not differentiate between lines of business in its contractual relationships with its providers, particularly within its integrated health care delivery system. Therefore, payments to providers do not vary based on lines of business. That is to say, their payment arrangements and/or cost accounting encounter valuations are the same for Kaiser's commercial membership as they are for their membership from Medicare, Medi-Cal, HFP, and AIM.

More than 90 percent of services for Kaiser Foundation Health Plan members, on both an expense and number of services basis, are provided through the Kaiser providers or the Permanente Medical Groups. Kaiser only contracts with outside providers in a few areas where their own network may not otherwise maintain adequate access to care. This is a requirement under DMHC licensure/regulations.

Verify Database Kaiser Uses to Maintain AIM Enrollment

Approach:

Kaiser provided a written summary of their approach for accepting, processing and reconciling enrollment information. Mercer reviewed the Monthly Financial Reports (invoices) submitted by Kaiser to MRMIB for billing months July 1, 2005 through June 30, 2007, to verify the process/summary described by Kaiser. In addition, Mercer interviewed Kim Ryan, Kaiser's Assistant Director of Statutory Finance, about the processes utilized.

Findings:

On a daily basis the Reporting Analyst (Government Reporting) receives an electronic 834 file from Maximus. The Reporting Analyst enrolls, disenrolls, and/or makes subscriber changes to AIM members in a Microsoft Access database according to the daily Maximus data files. The Analyst then generates subscriber enrollment and disenrollment reports from the database and e-mails reports to Kaiser's California Service Center (CSC) for all AIM members.

The CSC representatives update Foundations (Kaiser's enrollment and benefit tracking system) using the data from the AIM reports, and assign a medical record number for each new member in the Foundations system. Next, CSC representatives e-mail completed enrollment along with the new medical record number back to the Reporting Analyst. The Reporting Analyst verifies new enrollment, disenrollments and changes made in Foundations system for accuracy of each account created on a daily basis. The Reporting Analyst then updates the database with new subscribers' medical record numbers and files reports by month and year for Government Reporting records.

At the beginning of every month, the Reporting Analyst generates a New Subscriber Report from the Access database to retrieve all new subscribers enrolled in the previous month. This report is sent to the Project Manager (Statutory Finance) to create the Monthly Financial Report (invoice) for AIM to send to MRMIB. This Report is sent, along with eligible new subscriber detail, to MRMIB by the 15th of every month.

Kaiser's process for maintaining AIM enrollment records accurately appears to be well coordinated and appropriate.

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